CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

May 13, 2002

H.R. 4085

Veterans' and Survivors' Benefits Expansion Act of 2002

As ordered reported by the House Committee on Veterans' Affairs on May 9, 2002

SUMMARY

H.R. 4085 contains provisions that would affect a range of veterans' programs, including disability compensation, dependency and indemnity compensation (DIC), housing, insurance, and readjustment benefits. CBO estimates that enacting this bill would increase direct spending by $25 million in 2003, $123 million over the 2003-2007 period, and $260 million over the 2003-2012 period. Direct spending could also increase in fiscal year 2002 should the bill be enacted before the end of this fiscal year, but CBO estimates that any such outlays would be insignificant because it takes the Department of Veterans Affairs (VA) several months to process most benefit claims.

H.R. 4085 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4085 is shown in the following table. This estimate assumes the legislation will be enacted by October 1, 2002. The costs of this legislation fall within budget function 700 (veterans benefits and services).

	By Fiscal Year, in Millions of Dollars				
	2003	2004	2005	2006	2007
CHANGES IN DIRECT SPENDING					
Dependency and Indemnity Compensation[a]					
Estimated Budget Authority	13	15	16	18	19
Estimated Outlays	13	15	16	18	19
Housing Loan Guaranty Fees					
Estimated Budget Authority	6	6	6	0	0
Estimated Outlays	6	6	6	0	0
Veterans Mortgage Life Insurance					
Estimated Budget Authority	1	2	2	2	3
Estimated Outlays	1	2	2	2	3
State Approving Agencies					
Estimated Budget Authority	5	5	5	0	0
Estimated Outlays	5	5	5	0	0
Total Changes					
Estimated Budget Authority	25	28	29	20	22
Estimated Outlays	25	28	29	20	22

a. H.R. 4085 also would increase DIC payments by the same COLA payable to Social Security recipients. That change would have a cost, relative to current law, but the effect is already assumed in CBO's baseline.

BASIS OF ESTIMATE

The bill would affect direct spending in several veterans' programs, including disability compensation, DIC, housing, insurance, and readjustment benefits.

Dependency and Indemnity Compensation

Section 3 would allow a surviving spouse who remarries after age 65 to continue receiving DIC payments. The provision would apply retroactively, allowing surviving spouses who have already remarried after age 65 to resume receiving DIC payments but only if they apply for the benefit within one year after this bill is enacted. CBO estimates that the total cost to provide DIC payments to surviving spouses who remarry over age 65 would be $13 million in 2003, $81 million over the 2003-2007 period, and $203 million over the 2003-2012 period.

Under current law, VA provides DIC payments to the surviving spouse of certain deceased veterans. If a surviving spouse remarries, DIC payments cease. Should the subsequent marriage end, either because of divorce or death of the new spouse, DIC payments can resume. In fiscal year 2001, about 300,000 surviving spouses received such payments. CBO estimates that in that year, about 180 surviving spouses over age 65 (or about 0.06 percent of all surviving spouses receiving DIC) remarried and stopped receiving DIC payments as a result. CBO projects that, under current law, the number of remarriages would gradually increase each year as the overall population of DIC recipients increases and would exceed 260 a year by 2012.

CBO estimated the costs for three groups of surviving spouses—those over age 65 who would remarry under current law, those over age 65 who would choose not to remarry under current law but would remarry if H.R. 4085 were enacted, and those who remarried after age 65 before enactment of this bill.

Surviving Spouses Over Age 65 Who Would Remarry Under Current Law. CBO estimates that over the 2003-2012 period, 245 surviving spouses over age 65 would remarry each year on average under current law. Under this bill, federal spending for DIC would increase because those surviving spouses would now receive DIC payments that would have stopped under current law. The average DIC payment in fiscal year 2001 was $11,942. Such payments are adjusted annually for increases in the cost of living. After accounting for expected mortality of the remarried surviving spouses as well as their new spouses, CBO estimates that the additional cost to provide DIC payments to surviving spouses over age 65 who would remarry under current law would be $3 million in 2002, $42 million over the 2003-2007 period, and $145 million over the 2003-2012 period.

Surviving Spouses Over Age 65 Who Would Choose Not to Remarry Under Current Law. Under this bill, some surviving spouses over age 65 might choose to remarry who would not have done so under current law. CBO estimates there would be no additional cost to provide DIC payments to those individuals. Because those surviving spouses would choose to remain unmarried and receive DIC payments continuously under current law, providing DIC payments if they remarry would result in no additional costs to the program.

Surviving Spouses Who Remarried After Age 65 Before Enactment of the Bill. Section 3 also would apply retroactively, allowing surviving spouses who remarried after age 65 before enactment of this legislation to resume receiving DIC once this legislation was enacted. The bill institutes a deadline, however, that requires all those eligible to apply for this benefit within one year after the enactment date. After accounting for expected mortality of the remarried surviving spouses as well as their new spouses, CBO estimates that about 800 surviving spouses who remarried after age 65 would apply within the time limit and resume receiving DIC payments. That number represents about 30 percent of the total number of retroactive cases that CBO estimates would be eligible to reapply for DIC payments. CBO estimates that the additional cost to provide DIC payments to this population would be $10 million in 2003, $39 million over the 2003-2007 period, and $58 million over the 2003-2012 period. Such costs could obviously be much higher or lower, depending on the portion of eligible people that apply for this retroactive benefit. Based on data provided by VA about the number of claims a full-time employee can process in a year, CBO estimates that no additional personnel would need to be hired to handle the added applications for benefits expected under this section.

Cost-of-Living Adjustment (COLA)

Section 2 would increase the amounts paid to veterans for disability compensation and to their survivors for DIC by the same COLA payable to Social Security recipients. The increase would take effect on December 1, 2002, and the results of the adjustment would be rounded to the next lower dollar.

The COLA that would be authorized by this bill is assumed in the baseline, pursuant to section 257 of the Balanced Budget and Emergency Deficit Control Act, and savings from rounding it down were achieved by the Balanced Budget Act of 1997 (Public Law 105-33). The authority to round down the COLA increase was extended to 2011 by the Veterans Education and Benefits Expansion Act of 2001 (Public Law 107-103). Because the COLA is assumed in the baseline, the COLA provision would have no budgetary effect relative to the baseline. Relative to current law, CBO estimates that enacting this provision would increase spending for these programs by about $295 million in 2003. (The annualized cost would be about $400 million in subsequent years.) This estimate assumes that the COLA effective on December 1, 2001, would be 1.9 percent.

Home Loan Guaranty Fees

Section 4 would lower certain fees paid by members of the selected reserves who use the VA home loan program for the first time over the 2003-2005 period. Under current law, reservists pay fees ranging from 2.75 percent to 2 percent of the loan amount, depending on the down payment made. The bill would lower these fees by 75 basis points to the same range used for active-duty veterans—a range of 2 percent to 1.25 percent. Based on an average loan amount of $131,000, a caseload of 6,000 loans a year, and a fee cut of 75 basis points, CBO estimates that under the bill, VA would lose collections of about $6 million a year over the 2003-2005 period. Lowering the fees would also save an average borrower roughly $980, but CBO estimates these savings would not be significant enough to encourage additional loans or larger loan amounts.

Life Insurance Program

Veterans Mortgage Life Insurance (VMLI) provides coverage to certain severely disabled veterans who have received grants for specially adapted housing from VA. VMLI pays off the outstanding balance of the mortgage upon the veteran's death. Under current law, the maximum coverage allowed under VMLI is $90,000. Section 5 would increase this amount to $150,000. By doing so, this provision would increase the number of veterans who have their entire mortgage balance covered by insurance from 62 percent to 90 percent. According to VA, about 3,000 veterans participate in the program.

Since the premiums charged to these veterans are based on the mortality rates of comparable nondisabled individuals, the program requires a subsidy from VA to cover the costs of the claims. While the proposed change in coverage would increase the premiums paid by the policyholders, it would also increase the amount of the subsidy required from VA. CBO used data provided by VA that compared the projected subsidies to the VMLI program if the current coverage level was maintained against the estimated subsidies needed if the coverage was expanded to $150,000. The difference represents the additional subsidy that would be required from VA. CBO estimates that enacting this provision would cost about $1 million in 2003, $8 million over the 2003-2007 period, and $19 million over the 2003-2012 period.

Section 5 also would allow veterans who already have VMLI to maintain coverage regardless of age. Under current law, VMLI coverage terminates at age 70. A recent survey conducted for VA found that 12 percent of veterans whose VMLI was terminated had their coverage terminated due to the age restriction. Based on data from VA, CBO estimates that the increased subsidy required under this provision would cost less than $1 million a year.

State Approving Agencies

Section 6 would increase the amount available to state approving agencies by $5 million each year in 2003, 2004, and 2005. CBO expects this change would increase direct spending by $15 million over the 2003-2005 period.

PAY-AS-YOU-GO CONSIDERATIONS

The Balanced Budget and Emergency Deficit Control Act sets up pay-as-you-go procedures for legislation affecting direct spending or receipts. The net changes in outlays that are subject to pay-as-you-go procedures are shown in the following table. For the purposes of enforcing pay-as-you-go procedures, only the effects through fiscal year 2006 are counted.

	By Fiscal Year, in Millions of Dollars										
	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Changes in outlays	0	25	27	29	20	22	24	25	27	29	32
Changes in receipts	Not applicable										

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4085 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

PREVIOUS CBO ESTIMATES

On August 14, 2001, CBO transmitted a cost estimate for H.R. 2095, the Reservist VA Home Loan Fairness Act of 2001, as introduced on June 7, 2001. Section 4 of H.R. 4085 is similar to H.R. 2095, but H.R. 2095 would permanently lower fees paid by reservists and would have higher costs.

On February 28, 2002, CBO transmitted a cost estimate for H.R. 2222, the Veterans Life Insurance Improvement Act of 2001, as introduced on June 19, 2001. Section 5 of H.R. 4085 is similar to sections 4 and 5 of H.R. 2222, but H.R. 2222 would increase the maximum coverage of VMLI to $200,000 and thus would have higher costs.

On April 19, 2002, CBO transmitted a cost estimate for H.R. 1108, as introduced on March 20, 2001. Section 3 of H.R. 4085 is similar H.R. 1108, except that the latter would provide DIC to surviving spouses who remarry after age 55. H.R. 4085 also would put a time limit on applications from surviving spouses who remarried before enactment of the bill; H.R. 1108 would not.

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